

July 1, 2005

TO: All Departments and Independent Agencies

FROM: Department of Budget and Management (DBM)

SUBJECT: FY 2007 Operating Budget Technical Instructions

Although revenue projections are looking better than anticipated, Maryland State Government is facing an estimated budget gap of more than \$400 million that we must address in order to submit a balanced budget for FY 2007. The Ehrlich Administration is committed to making the necessary reductions in State spending in order to eliminate this gap. With your help, we will make these difficult decisions in a thoughtful and prudent manner.

It is important in difficult fiscal times like these for all agencies to think strategically and to apply the performance data developed through the Managing for Results (MFR) process to refine budget priorities and identify both programs that are working well and activities of questionable value that could be reduced or eliminated. By applying strategic budgeting and MFR principles, we will continue to reduce the price of government and maintain the Ehrlich-Steele Administration strategic priorities of:

- Education,
- Public Safety,
- Health and the Environment,
- Commerce, and
- Fiscal Responsibility.

Strategic Budgeting for FY 2007 will build upon the analyses provided by agencies for the FY 2006 budget. Although agencies will not be required to formally complete the entire Strategic Budgeting workbook for FY 2007, agencies should continue to perform strategic budgeting analyses that support development of fiscally prudent budgets. Agencies will be advised separately concerning budget targets, areas of particular focus, and submission deadlines.

Updates and Revisions

- Managing for Results: Discussion of performance measures included in the 2005 State Comprehensive Plan. This requirement only applies to agencies responsible for reporting on measures included in the State Plan. Instructions are provided in the Managing for Results section of these instructions.
- Budget Amendments: Section 30, Item 7, of the FY 2006 Budget Bill requires that only budget amendments signed by the Governor may be reflected in the FY 2006 appropriation detail printed in the Governor's Allowance for FY 2007. If an agency intends to update the FY 2006 Legislative Appropriation to reflect budget amendments in process, the budget amendment must be submitted to DBM no later than September 30, 2005.

- Organization Charts: In accordance with Section 33 of the FY 2006 Budget Bill, agencies are required to submit organizational charts by department, unit, agency, office, and institution that depict the allocation of personnel across operational and administrative activities. Instructions will be provided at a later date on the DBM website.
- Collective Bargaining: The General Assembly eliminated the requirement of itemizing the costs of implementing collective bargaining agreements.

Over the Target Requests

Requests for funding above the target should be completed in accordance with guidance on page 58 and submitted separately on the revised DBM-DA-21 form with submission of the budget request.

Statewide Allocations

The budget request for FY 2007 should contain the same amount by fund as the FY 2006 Appropriation for the following items:

- Injured Worker's Insurance Fund (IWIF) premiums (object 0175)
- DBM paid telecommunications (object 0305)
- DBM telecommunications lease costs (object 0322)
- Maryland Environmental Service wastewater and/or water services (object 0697)
- Office of Administrative Hearings (object 0831)
- Annapolis Data Center Charges (object 0882)

In addition, agencies for which special-funded legislative audit chargebacks were budgeted in FY 2006, should deduct the chargebacks from the request for FY 2007. Agency budgets will be modified as necessary by DBM once decisions about the items listed above are finalized.

Salaries and Benefits

Agencies should submit requests for salaries and fringes in accordance with the Budget Instructions using the pay plan in effect July 1, 2005.

Funding by Subobject

The Budget Bill for FY 2006 requires that “to the extent possible, except for public higher education institutions, subobject expenditures shall be designated by fund.” Therefore all State agencies, except for public higher education institutions, are required to submit the FY 2007

budget request with designated funding at the subobject level. Subobject level funding is to be reflected for the FY 2005 Actual, FY 2006 Appropriation and FY 2007 Request.

Reorganizations

Any reorganization to be reflected in the budget allowance must be included in the budget request documents. No major reorganization for the request year may be proposed or submitted between the budget submission deadline and December 31. Agency budget documents for the Actual Year and Appropriation Year must be presented consistent with any reorganization for the Request Year.

Operating Maintenance

All new or additional operating maintenance projects should be sent directly to the Assistant Manager for Maintenance Engineering, Department of General Services, 301 W. Preston Street, Room 1405 Baltimore, MD 21201. Call (410) 767-4263 with questions.

Please note that the agency budget submission should exclude any funding for the following items in the request year:

- Operating maintenance projects administered by the Department of General Services, and
- General-funded capital projects.

Indirect Cost Allocation Plans

Where applicable, each State agency must submit a copy of its indirect cost allocation plan currently approved by the applicable Federal agency along with its FY 2007 budget request. Supplemental instructions will be provided at a later date that outline the specific reporting requirements for submitting the indirect cost allocation plan.

Agency Agreements

Section 26 of the Budget Reconciliation and Financing Act of 2004 requires that any agreements between State agencies and any public higher education institution, or between two or more State agencies, involving an expenditure of more than \$100,000 must be published in the Maryland Contract Weekly and reported to the Legislative Budget Committees, Department of Legislative Services, the Board of Public Works. The reports must include information on the creation of positions related to the agreement. In preparing the FY 2007 budget request, agencies should continue to report planned agreements using Form DA-23. The legislature may again require notification before agreements are implemented.

CONTACT KURT STOLZENBACH ON 410-260-7416 OR BY E-MAIL AT KSTOLZEN@DBM.STATE.MD.US IF YOU WISH TO OBTAIN A CD OF THE BUDGET INSTRUCTIONS.